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ABSTRACT

Based on five individual case studies conducted in the summer and fall of 1978, this paper attempts to provide an initial indication of the severity of impact of Proposition 13 and Senate Bill (SB) 154 on five school districts in San Francisco, California. It also identifies where districts made budgetary changes from the previous year and briefly looks at district budgeting processes in the wake of Proposition 13. Budgets and other documents were analyzed and interviews were conducted with administrative personnel to determine specific budget decisions and what influenced them. The cost to districts of providing the same educational services in 1978-79 that they provided in 1977-78 was compared to the revenues that the district would have received if Proposition 13 had not passed and the post-SB 154 budgeted revenues for the district. Results showed that the impact of Proposition 13 and SB 154 on California public schools has been significant, but it has not been felt uniformly by the state's school districts. At present levels of funding, most districts are continuing to provide a level of educational programs only marginally different from that provided in previous years. If additional cutbacks are imposed in the future, however, the impact on the level of educational programs could be quite severe. (Author/LD)

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PROPOSITION 13 AND THE PUBLIC SCHOOLS:
THE FIRST YEAR

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PROPOSITION 13 AND THE PUBLIC SCHOOLS: THE FIRST YEAR

Abstract

The passage of Proposition 13 in California in June, 1978 cut property taxes by nearly 60%. The State's schools were thus threatened with a loss of revenue that would make operation in 1978-79 virtually impossible. The State Legislature came to a partial rescue by passing SB154, the "Bailout Bill," which provided extra funds to make up most of this loss. Based on five individual case studies conducted in the Summer and Fall of 1978, this paper attempts to provide an initial indication of the severity of the Proposition 13-SB154 impact on individual districts, to identify where districts made budgetary changes from the previous year, and to look briefly at district budgeting processes in the wake of Proposition 13. The impact of Proposition 13 on school districts in 1978-79 appears to have been to accentuate the already fiscally constraining forces of inflation, enrollment losses, and revenue limits. Beyond this, individual districts were hit more or less hard depending on their individual characteristics, but not necessarily on the basis of Serrano equalization criteria. Where districts had to make cutbacks, they tended to concentrate in the areas of classified personnel and support services and supplies, and avoided program cuts. District budgeting decisions appeared to be dictated by forces outside the control of districts, and with little input from outside groups.

INTRODUCTION

On June 6, 1978 Howard Jarvis proclaimed that the voters of California had "sent out a clear message." On that day they had passed Proposition 13, which he had coauthored with Paul Gann, by a resounding 2-1 margin. The initiative relieved the strangulating effects of the rapid rise in property values throughout the state by making four major changes in the way property is taxed. These changes created large savings for most California property owners:

- o Property can be taxed at a maximum of 1% of assessed value, defined as the sales price of the property.
- o Property taxes can be increased by only 2% per year.
- o Property assessments are reverted to 1975 levels, although property that has been sold after 1975 is assessed at sales price.
- o Property is reassessed only when sold.

The message of which Jarvis spoke, however, was clear only in part. Voters had unequivocally decided to provide themselves with property tax relief, but the impact of this decision on public schools and other agencies dependent on the property tax for revenue was decidedly unclear. California's public school districts were faced with revenue losses of 30-60%, which, because of legal and contractual restrictions, could keep many schools from opening their doors in September, 1978. Districts were in the midst of developing their 1978-79 budgets when Proposition 13 was passed, and the uncertainty created by this potentially enormous loss of revenue caused wholesale panic among school administrators, teachers, and communities.

The California Legislature came to a partial rescue in early July, 1978 by passing SB154, the "Bailout Bill." This bill provided K-12 school districts with \$2.067 billion from the State budget surplus for 1978-79 school year operations. Districts lost 9-15% of the general revenue they would have received in 1978-79 had there been no Proposition 13. The net effect of SB154 on California public school districts was that 1978-79 total school expenditures were about equal to those of 1977-78, leading to an obvious conclusion that the impact of the Proposition 13 reduction in property taxes was negligible. But several factors--inflation, enrollment changes, provisions of SB154, and factors peculiar to individual districts-- made the impact of Proposition 13-SB154 vary greatly.

To get an initial indication of the severity of the Proposition 13 impact on California school districts, the authors conducted case studies of five districts. The objectives of the study were threefold:

- 1) To determine the severity of the Proposition 13-SB154 impact on individual districts,
- 2) To identify areas where districts made budgetary changes from 1977-78 expenditures, and
- 3) To look briefly at the process by which districts made budgetary decisions in the wake of Proposition 13-SB154.

In each district, budgets and other documents were analyzed and interviews were conducted with the superintendent, business manager, a representative of the teacher union, and, where possible, other district administrators and employees. The interviews were largely informal, but focused on specific budget decisions and factors that caused those decisions to be made.

Because many factors dictated the severity of the Proposition 13 impact, and because the authors wanted to examine the range of impacts, districts were selected on the basis of their diversity with respect to size of enrollment; direction of enrollment change; location in urban, suburban, or rural setting; wealth, measured by amount of revenue limit per unit of average daily attendance (ADA); size of SB154 cutback; type of district organizational structure; and operation of summer school and adult education programs. (The reason for the last criterion will become clear in the discussion of specific provisions of SB154.) Table 1 compares the five districts with respect to these characteristics. All the districts selected for study are in the San Francisco Bay area, had budget data available at the time data were collected, and were willing to participate in the study.

The study was conducted in August and September, 1978. Data are based on information obtained from publication and final budgets, and 1978-79 ADA figures are those projected by the State Legislative Analyst. Actual expenditures may vary to a large extent, especially since laws passed and court decisions rendered after September, 1978 have changed some of the provisions of SB154. The results of this study are thus time-bound-- they provide a preliminary estimate of the Proposition

TABLE 1

Characteristics of the Five Districts Studied

Characteristic	<u>District A</u>	<u>District B</u>	<u>District C</u>	<u>District D</u>	<u>District E</u>
Size (1977-78 ADA)	Small (407)	Medium (8,070)	Large (57,702)	Medium (11,527)	Medium (13,288)
Direction of Enrollment Change	Stable	Increasing	Increasing slightly	Decreasing	Decreasing
Location	Rural	Suburban	Urban	Suburban	Suburban
Revenue Limit per ADA (1978-79)	\$1918	\$1488	\$1568	\$1429	\$1551
SB154 Cutback	15.00%	9.02%	11.81%	12.23%	11.50%
Type of District Organization	Unified (K-12)	Unified (K-12)	Unified (K-12)	Elementary (K-8)	Unified (K-12)
Operated 1977-78 Summer School Program	No	Yes	Yes	Yes	Yes
Operated 1977-78 Adult Education Program	No	Yes	Yes	No	Yes

13 impact, but do not reflect that impact on actual expenditures.

METHOD OF ANALYSIS

The Impact of Proposition 13-SB154 on Districts

Determining the Proposition 13-SB154 impact on the abilities of districts to provide educational services is not a simple task. Other factors mentioned earlier --inflation, enrollment changes, and factors peculiar to individual districts--are difficult to separate from the specific provisions of SB154. The basic approach of our analysis is to determine, given some assumptions about changes in the cost of providing educational services and the costs associated with changes in enrollment, the cost to districts of providing the same educational services in 1978-79 that they provided in 1977-78. This figure for each district can then be compared to the revenues that the district would have received if Proposition 13 has not passed, and the post-SB154 budgeted revenues for the district. In this way we can compare the impact of Proposition 13-SB154 on the ability of districts to provide the services they provided the year before, and to provide the services they could have if Proposition 13 has not passed.

The amount of educational services that a district can provide in any year is a function of the amount of money it has available in that year and the cost of providing those services. For a district to provide the services in 1978-79 that it provided in 1977-78, it would need to have available the resources that it had in 1977-78, plus the additional resources necessary to meet cost increases in labor and materials. In addition, if a district has a change in enrollment from one year to the next, the cost of providing identical services will vary according to the size and direction of its enrollment change.

If it is assumed that the cost of providing services varies in the same way --as the rate of inflation, the cost to a district of providing the same services that it provided the year before will simply be the cost of the services in the previous year times the rate of inflation added to the previous year's cost.

The cost of changes in enrollment are more difficult to determine. It is not reasonable to assume, for instance, that the costs of increases or decreases in enrollment are equal to the percentage change in enrollment, since the addition or loss of a student does not necessarily permit the immediate hiring or firing of personnel, increased or decreased maintenance costs, and so on. For the purposes

of analysis it will be assumed that 50% of the cost of the percentage change in enrollment will be adjustable by the districts. (This assumption is, of course, simplistic. It ignores questions of scale, position on cost functions, etc. These factors would have only a slight effect on the analysis however, and will thus be ignored.)

The rate of inflation during the 1977-78 school year was about 8%. The cost to a district of providing services in 1978-79 identical to those provided in 1977-78 would thus be:

$$1.08 \text{ (1977-78 expenditures)} + .5(\% \text{ enrollment change}) \text{ (1.08 1977-78 expenditures)}$$

Many factors influence the amount of funds available to a district in any given year. Prior to 1972 the funds available to a district in any given year was a function of its assessed property valuation; its tax rate; its ADA; and various other factors, including the size of the district's reserves and the amount of restricted funds it received from State and Federal governments. Districts with high property wealth and/or a high tax rate were consequently able to spend much more than districts with low assessed property valuations and/or low tax rates.

This situation was changed following the landmark 1971 California Supreme Court decision in the case of Serrano vs. Priest. The Court ruled that education is a fundamental right and cannot be conditioned by an individual's wealth or the wealth of his neighbors. The California school finance system was thus ruled to be unconstitutional, and the State was mandated to reform its educational finance structure.

The primary legislative responses to that decision, SB90 and later AB65, have set revenue limits for each district. These limits increase each year by an inflation factor set on a sliding scale--higher spending districts have smaller revenue limit increases than lower spending districts.

The amount of the funds available to a district in any given year now depends on the following factors:

- 1) The district's K-12 revenue limit, which is determined by multiplying the district's regular and summer school ADA by the district's base revenue limit per ADA.

- 2) The district's adult education revenue limit, determined by multiplying the district's adult ADA by its base adult revenue limit per ADA.
- 3) Categorical aid programs, funds for special education, and other allowances from the State. These are primarily restricted funds, but a few allocations under this category, such as the State Teacher Retirement Service (STRS) apportionment, are available for general purpose spending.
- 4) Federal categorical programs, which are almost entirely restricted.
- 5) The district's reserves, including its beginning balance and any other special reserves.
- 6) Adjustments to the district's revenue limit. Some of these include allocations for such special circumstances as declining enrollments, small high schools, mandated court orders, applicable property taxes levied in the previous year, etc.
- 7) Other local income, not subject to the revenue limit. These include tax overrides, leases, incoming transfers, etc.

By using the above formula to determine the cost of continuing service at 1977-78 levels and computing the amount of money that would have been available to each district in 1978-79 had Proposition 13 not been passed, the two figures can be compared to show the relative 1978-79 financial condition of each district prior to Proposition 13. The changes in district funds available after Proposition 13-SB154 can thus be separated from changes caused by inflation and enrollment changes.

How Districts Responded to Changes in Income in 1978-79

Once it has been determined how districts have been affected by Proposition 13-SB154, it is possible to determine what budget decisions they made in response. To simplify the analysis, budget decisions have been divided into four major areas:

1) Personnel - Decisions included here are those involving the addition or reduction of district employees and decisions involving salary and benefit schedules. Because districts employ personnel for many different purposes, from building maintenance to teaching to district management, it is useful to further subdivide this category according to the direct impact of employees on school activities. These subcategories are:

a) teaching personnel, including all personnel who have classroom responsibilities. Classroom teachers, special area teachers, guidance personnel, and instructional aides are the primary members of this category,

b) administrative personnel, including superintendents, supervisors, principals and other building administrators,

c) support personnel, including secretaries, clerks, mechanics, custodians, groundskeepers, bus drivers, and other classified employees not previously mentioned,

d) salary and benefit decisions not specifically related to the number of people employed.

2) Programs - These are defined as the primary activities of the school in direct relationship to the primary purposes of the institution. The purposes of schools are, of course, open to argument, but for the sake of analysis the primary purposes of schools will be defined as including direct classroom instruction, and also those activities generally considered important to effective learning, e.g. meals, community services, athletics, etc.

3) Support Services and Supplies - Included in this category are all activities and resources which support the primary activities of the school. The most significant of these are transportation, maintenance and operation, textbooks, supplies, site improvement, etc.

4) Capital and Liquid Assets - This category includes land, buildings, and district reserves.

Obviously these categories are not mutually exclusive. Personnel decisions, for example, affect programs and/or support services also. They do, however, provide a useful framework for analyzing the decisions districts made about their programs and resources.

Decision Making Processes

Budget decisions made after Proposition 13 passed needed to be made very quickly. In August and September 1978, when the study was conducted, many districts had not completed the budgeting process. Furthermore, information on the budgeting process was obtained only through the subjective impressions of the interviewees. These factors make an objective analysis of the budgeting process impossible. Analysis of this process will thus be limited to a brief discussion of the authors' impressions.

ANALYSIS AND RESULTS

The Impact of Proposition 13-SB154 on Districts

The passage of SB154 made significant changes in the amount of funds available to districts and the discretion that they had in spending those funds. Among the bill's major provisions were the following:

- 1) It cut districts back from their 1978-79 revenue limit income on a sliding scale of 9-15%, based on the proportion of the district's per-ADA revenue limit to the state foundation program.¹
- 2) It canceled 1978 summer school programs throughout the state with the exception of those mandated by State or Federal programs. It allowed districts, however, to receive credit on their 1978-79 budgets for 1977 summer school ADA. Thus, districts with large 1977 summer school programs received income from those programs without holding 1978 programs. Districts that held no summer school in 1977 receive no 1978-79 ADA credit.
- 3) It allowed districts to receive income from 1977-78 adult ADA without operating those programs in 1978-79. It did mandate that certain programs, including Basic Education, English as a Second Language, and others be held at near 1977-78 levels. This provision allowed districts with large adult programs to cut back and apply income from these programs to their regular September-June programs.
- 4) It prohibited cost-of-living salary increases for all employees, including those increases already established by contract. It did not prohibit annual salary increases for advances in experience and education of personnel.
- 5) It cut back all state categorical programs by 10%.
- 6) It reduced each district's total allocation by one-third of the amount of its reserves in excess of 5% of its total budget. Districts with reserves less than 5% of their total budget received no penalty. Reserves that were non-cash assets, restricted by law or court order, or committed to contractual obligations or capital outlay prior to the passage of Proposition 13 were exempted from consideration.

With respect to mandated spending cutbacks, SB154 was thus uniform in its effect on districts. If a district wanted to receive state aid it could not hold summer school or give cost-of-living salary increases to its employees. Other provisions of the bill, however, contributed to widely divergent situations in the amount of financial resources districts had in 1978-79 relative to 1977-78. District characteristics that would lead to best and worst relative financial situations are summarized in Table 2.

¹For a detailed description of the SB154 cutback formula, see James Catterall and Thomas Thresher, "Prop. 13: The Campaign, The Vote, and the Immediate Aftereffects for California Schools." Stanford CA: Institute for Research on Educational Finance and Governance, CERAS, March 1979

TABLE 2

District Characteristics Leading to Best and Worst Possible
Financial Conditions Relative to 1977-78

Best Situation

High revenue limit increase
Low SB154 revenue limit reduction
Large 1977 summer school program
Large 1977-78 adult education program
Reserve balance near 5% of budget
Large contracted employee salary
increases
Small amount of State categorical
funding

Worst Situation

Low revenue limit increase
High SB154 revenue limit reduction
No 1977 summer school program
No 1977-78 adult education program
Low reserve balance or reserve
balance significantly over 5%
No contracted employee salary
increase and salary increase not
budgeted for
Large amount of State categorical
funding

The analysis of post-Proposition 13 revenues compared to 1978-79 pre - Proposition 13 and 1977-78 revenues is summarized in table 3 for the five sample districts. In all districts, summer school ADA is equal for the two years because of the provision of SB154 that allows districts to receive funds for summer programs held in 1977-78. Adult ADA differs between the two years in some districts because districts were allowed to conduct adult education programs in 1978-79. The category, "general purpose funds necessary to operate at 1977-78 levels," refers to the application of the formula used to measure cost differences caused by inflation and enrollment changes. The category "Pre-SB154 total general purpose funds available," is the sum of general purpose funds available in 1978-79 plus the amount cut by SB154.

For the purpose of clarity, general purpose funds have been separated from restricted funds. Even though state categorical funds were cut by 10%, the amount of these funds available to districts is dependent upon many factors not related to the study. (Three of the five districts studied actually received more state categorical income in 1978-79 than they had in 1977-78.) Furthermore, restricted income can be spent only on programs for which it is designated. For these reasons, consideration of restricted income would obscure the analysis of reductions that districts made.

Several points are worthy of note:

- 1) None of the districts studied would have had enough general purpose funds available to operate at 1977-78 levels (as determined by Formula 1) had Proposition 13 not passed. This is explained primarily by the fact that four of the five districts had revenue limit increases smaller than the rate of inflation. In addition, all of the districts with the exception of District C (which had 1977-78 operating expenses decreased by a teacher strike) reduced the size of their reserves in 1977-78, so they began the 1978-79 school year with beginning balances that were lower than in the previous year. Additional losses of income in some of the districts were caused by miscellaneous factors.

The use of the 8% inflation factor causes some problems for our analysis. Because of the freeze on cost-of-living salary increases, no districts had given raises behind those for experience and education when the study was conducted. Experience and education increases usually amount to no more than 2½% of salary costs. If we assume that salary costs (excluding health and welfare benefits)

Table 3. Comparison of District Funds Before and After Proposition 13-SB154

	District A		District B		District C		District D		District E	
	1977-78	1978-79	1977-78	1978-79	1977-78	1978-79	1977-78	1978-79	1977-78	1978-79
Regular K-12 ADA	408	409	7,700	8,348	49,644	50,223	10,819	10,307	11,698	10,929
Defined Summer ADA	0	0	258	258	3,192	3,192	708	708	509	509
Defined Adult ADA	1	0	112	143	4,866	4,866	---	---	1,081	1,081
Total ADA	409	409	8,070	8,749	57,702	58,281	11,527	11,015	13,288	12,519
Beginning Balance	51,235	16,559	1,065,429	738,649	4,251,469	7,899,634	862,718	206,537	997,274	986,720
General Purpose Income	997,198	829,488	13,843,842	13,308,727	95,200,402	87,313,305	17,603,468	15,944,022	20,423,643	18,959,440
State Restricted Income	59,370	66,858	1,052,865	1,108,195	11,151,134	10,247,459	1,393,563	1,417,753	929,696	802,065
Federal Restricted Income	102,908	123,602	279,147	473,127	17,027,473	20,525,894	409,207	423,013	532,131	620,835
Total Funds Available	1,210,711	1,036,505	16,251,283	15,628,698	127,630,478	125,986,292	20,268,956	17,991,627	22,893,714	21,369,080
Total General Purpose Funds Available	1,048,433	846,047	14,808,271	14,047,376	99,721,871	95,212,939	18,466,186	16,150,559	21,420,917	19,946,180
General Purpose Funds Necessary to Operate at 1977-78 Levels		1,135,000		16,779,413		108,827,906		19,500,562		22,465,171
Pre-SB154 Total General Purpose Funds Available		963,706		15,194,416		103,774,272		18,232,252		22,019,301
K-12 Revenue Limit/ADA	1,861	1,918	1,355	1,488	1,436	1,568		1,429	1,417	1,551
Adult Revenue Limit/ADA		---	745	819	942	994		---	916	971
SB154 Cut		15.00%		9.02%		11.81%		12.23%		11.50%

amount to two-thirds of district expenditures,² the actual inflation factor for districts, including the salary freeze, is about 4.3%.³ Even when this is taken into account however, only one district (District E) would have had enough available funds before Proposition 13 to operate at 1977-78 levels.

2) After the SB154 funding cutbacks, all districts studied had less than 90% of the general purpose funds they needed to operate at 1977-78 levels. Even in comparison to 1977-78 actual dollars, no district had more than 96% of its previous year's total.

3) When the cost of SB154-mandated reductions (summer schools, salary freeze) are subtracted from the total amounts necessary to operate at 1977-78 levels, districts still do not come close to having the funds they needed to avoid additional reductions. When savings from cutting back on all but the SB154-mandated adult education programs are taken into account, only the two districts with large 1977-78 adult programs, Districts C and E, approached what they needed to operate at 1977-78 levels. For elementary districts such as District D, and for other districts that have had their adult education taken over by community college districts or have never had adult programs, these savings are not possible and cutbacks must be made in other areas.

4) While the plight of the districts studied cannot be regarded as necessarily representative of the State because of the small number of districts represented, the districts do represent a wide variety of relevant district traits, and are located throughout the best case-worst case continuum described earlier.

District A is close to being an absolute worst case. It has a low 1978-79 revenue limit increase (about 3%), the highest possible SB154 cutback (15%), did not operate a summer or adult education program in 1977-78, has virtually no reserves (about 1.6% of its budget), had not contracted for an employee salary increase, and has an average amount of categorical funding. The District's financial troubles are chronicled by the fact that it has only 75% of the general purpose funds that it needs to operate at 1977-78 levels.

While there is no clear best-case district in the study, it is difficult to imagine that many districts fared better financially as a result of SB154 than District B. It had a high revenue limit increase (near 10%), a low SB154 cutback (9.02%), had reserves of nearly 5%, and is the only district in the study that is growing rapidly in enrollment size.

²The actual range for district in the study was 63.6 - 69.3%.

³This is computed by assuming a 2.5% increase in salary costs and an 8% increase in all other costs.

As can be observed from Table 3, the other districts fall somewhere in the middle of the continuum. The diversity of other characteristics suggests that their situations are fairly typical.

District Budgetary Decisions

The largest savings to districts occurred, of course, in summer and adult education programs, and in the savings achieved by the mandatory salary freeze. As was mentioned earlier, however, all of the districts faced the necessity of making cutbacks beyond those mandated by SB154. These additional cutbacks are summarized in Table 4. The Table reflects the four major decision areas: personnel, programs, support services and supplies, and capital and liquid assets. Within each area, district decisions in 1978-79 are listed according to whether expenditures in a particular category were increased, held constant, reduced or deleted altogether.

Cutbacks were made primarily in the area of support services and supplies. This reflects both necessity and the priorities of the districts. Districts operated under severe legal restrictions in determining what cutbacks they would make in 1978-79. According to the State Education Code, certificated employees cannot be laid off in any year unless they have been notified that they will be terminated by March 15 of the previous school year. Since Proposition 13 was not passed until June 6, few districts sent out March 15 notifications for reasons related to expected Proposition 13 cutbacks. (Some districts sent out March 15 notices because of declining enrollments.) Districts were thus prohibited from laying off certificated employees, a category which usually accounts for 55-75% of a district's budget.

Personnel reductions were then limited to classified employees, who can be terminated on thirty days notice. Since most of these employees are involved in support services, this was the only direction in which districts could move precipitously. One significant exception is that of instructional aides, who are classified employees with teaching responsibilities. Four of the five districts studied reduced or eliminated aides.

Table 4 Summary of District
Checks

Personne:

Category	Alameda	Butte	Colusa	Contra Costa	Fresno	Humboldt	Kern	Lake	Mendocino	Napa	Santa Clara	San Diego	San Francisco	San Jose	Shasta	Tulare	Ventura
Teaching:																	
Classroom Teachers	X	X		X	X		X	X		X	X		X	X		X	X
Special Area Tchrs				X									X				X
Guidance				X													X
Instructional Aides			X														X
Summer School Tchrs					X												X
Substitutes				X													
Admin:																	
Superintendents		X											X				
Supervisors					X								X				X
Principals													X				X
Asst. Principals													X				X
Clerical			X		X								X				X
Custodians			X		X								X				X
Building Maintenance			X		X								X				X
Groundskeepers			X		X								X				X
Drivers			X		X								X				X
Mechanics			X		X								X				X
Yard Duty					X								X				X
Salaries:																	
Certified-CPI		X			X			X					X				X
Step & Column					X			X					X				X
Classified-CPI		X			X			X					X				X
Step & Column					X			X					X				X
Programs:																	
Summer School		X			X			X					X				X
Adult Education		X			X			X					X				X
Library			X		X			X					X				X
Human Relations					X			X					X				X
Community Services			X		X			X					X				X
Alcohol Education					X			X					X				X
Athletics					X			X					X				X
Field Trips					X			X					X				X
Audio-Visual			X		X			X					X				X
Number of Schools		X			X			X					X				X
Split Attendance Shifts					X			X					X				X
Support Services and Supplies:																	
Textbooks			X		X			X					X				X
Other books			X		X			X					X				X
Instruct. Supplies			X		X			X					X				X
Printing				X				X					X				X
Other Supplies			X		X			X					X				X
Transportation			X		X			X					X				X
Equip. Replacement			X		X			X					X				X
Contracted Services			X		X			X					X				X
Site Improvement					X			X					X				X
Buildings Improvement					X			X					X				X
New Equipment			X		X			X					X				X
Instr. Media Ctr.					X			X					X				X
Bldg. Maintenance			X		X			X					X				X
Clerical Services			X		X			X					X				X
Dist. Administration			X		X			X					X				X
Care of Grounds					X			X					X				X
Capital and Liquid Assets:																	
Reserves					X			X					X				X
Bldg. Acquisition		X			X			X					X				X
Leases, Rentals		X			X			X					X				X

Notes: 1) Did not fill unoccupied positions

2) Laid off employees due to declining enrollments

3) Number of employees reduced due to school closings.

4) Includes funds budgeted for contingencies and ending balance.

Note: A blank line indicates that a district did not budget for a category or that information is not available.

Reductions in reserves were made by four of the five districts, but the size of savings in this area was limited by the fact that all but one of the districts was already faced with dwindling reserves. District D was the only district that budgeted for an increase in reserves, doing so in the belief that its 1978-79 beginning balance (about 1% of the budget) was inadequate to allow the district to respond adequately to future income reductions.

Reductions in programs were limited for two major reasons. First of all, programs are often tied to certificated employees, who could not be cut. Secondly, primary district priorities in cutting budgets were stated to be, in all cases, to avoid cutting into the basic instructional program of the district.

As Table 4 suggests, districts tended to follow similar patterns in making cutbacks in all four areas. These can be summarized as follows:

Personnel Cuts - For reasons already mentioned, districts did not make many cuts in the teaching personnel category. Instructional aides and substitutes were two exceptions. Positions in special areas, such as art, music, and library services were also cut slightly in all districts. All of the districts adopted a policy of not replacing teachers who left the system.

Administrative personnel reductions were significant in only one of the districts. Most administrative cutbacks were made because of declining enrollments and/or school closings.

Support personnel were cut sharply in all districts except District B, which opened new schools and therefore required additional employees. The other districts made significant reductions in the number of employees in nearly every category.

Cost of living salary increases were not given by any district. District A moved beyond SB154 restrictions by budgeting for a 3% across-the-board salary reduction. Although step and column increases (increases for education and experience) were not prohibited by SB154, two districts did not allow employees to advance on the salary schedule. District C made significant savings by unilaterally cutting an employee annuity program by 50%.

Programs - With the exception of summer school and adult education, only two districts made program changes that directly affected students in the classroom. These were Districts B and E, which opened and closed schools, respectively, due to enrollment changes. The other programs that were reduced addressed other school activities. Most significant savings were achieved by reducing or eliminating library and community service programs, and limiting field trips to those funded by categorical programs.

Support Services and Supplies - Large savings were achieved in three areas of support services and supplies. Districts reduced sharply the level of maintenance of school sites, including custodial services, groundskeeping, and maintenance of equipment; they reduced the level of transportation services provided; and they reduced or cut out entirely the purchase of new books, supplies, and equipment. This last act represented the principal area where districts allowed classrooms to be affected directly.

Capital and Liquid Assets - Four of the five districts obtained savings by decreasing the size of their reserves, as reflected by the size of their appropriations for contingency. None of the districts sold property, although one expected a small increase in revenue from the lease of property.

THE POST-PROPOSITION 13 BUDGETING PROCESS

Districts seemed to respond almost uniformly to the sudden necessity of making budget cutbacks. In order to understand why this is almost inevitable it is necessary to understand the budgeting quandary districts faced in the summer of 1978.

Proposition 13 was passed on June 6. For the next month, before the passage of SB154, districts were faced with the possibility of a 30-60% income loss. The uncertainty of this situation effectively prohibited rational budgeting. After the passage of SB154, districts had to make decisions rapidly enough to submit publication budgets in early August and pass final operating budgets in early September.

The typical district response was a list of budget priorities, set by the superintendent and school board. These priorities were usually quite similar-- expenditures for required subject areas, classroom instruction, and state-mandated

programs were at the top of the list. A list of potential cutbacks was then drawn up by central office personnel based on these priorities, with the approximate savings for each cut computed. This set of cutbacks was then presented at a school board meeting.

Public response to the budget proposal was typically disorganized and surprisingly sparse, due to the haste with which decisions had to be made and the fact that citizen participation, usually slack in the summer, was reduced even further by the cancellation of summer school. Community response thus tended to have only a slight marginal impact on budget decisions.

Employee unions and professional organizations also did not have much impact on post-Proposition 13 budget decisions. Union attention was focused on fighting the mandatory salary freeze, so that little effort was directed at dictating budget decisions. Union membership was also difficult to involve, since few employees were working during July and August.

In sum, then, budget decisions tended to be made very rapidly by central office administrators on the basis of a fairly uniform set of priorities. For reasons already explained, the latitude available in making decisions was constricted, and the input of organized interest groups was minimal.

CONCLUSIONS

This study has several limitations. Many of the data that are drawn upon are taken from district publication budgets rather than actual district expenditures. Furthermore, the method of analysis used involves assumptions about the rate of inflation and the cost of enrollment changes that can be problematic. Finally, events that have occurred since the data were gathered, such as the striking down of the salary freeze, make some of the observations dated. Even given the limitations of the study, however, several conclusions that do not depend on the precision of data seem justified:

- 1) While the overall impact of Proposition 13 can be separated conceptually from other conditions affecting school finance, its actual impact on district expenditures is not distinct. Every district studied has financial problems apart from the cuts imposed by SB154. Two of the major reasons for these problems include

the fact that the revenue limit increases for most districts have not kept pace with the rate of inflation, as well as the failure on the part of many districts to make operational cutbacks necessary to accomodate the rates of decline in enrollment. The cutbacks imposed by Proposition 13-SB154 have hastened the financial deterioration of the less sound districts and have placed stronger districts on shakier ground.

2) While the actual dollar cutbacks of Proposition 12-SB154 appear on their face to move toward satisfying the requirements of the Serrano mandate to reduce expenditure inequalities, other provisions of SB154 make that movement much less uniform. Changes in expenditure per actual ADA can still vary considerably depending on the size of the summer school and adult education programs and the size of district reserves for 1977-78 (the base year for SB154 adjustments). These latter provisions create a wide variation in the amount of district expenditures per actual ADA. Furthermore, there are problems created when the amount of money allocated to districts is decreased rather than increased. Small districts, such as District A, are much less able to absorb marginal cutbacks than larger districts like District C. These factors make the equalization impact of SB154 much more random than it appears.

3) Districts have made significant reductions in many areas that do not directly affect instruction. Many are functioning in 1978-79 with a bare minimum of support services and supplies, and have reduced their reserves to a small amount. If these districts are forced to make additional cutbacks in 1979-80, or pay for 1978-79 cost-of-living salary increases, many will have no options left but to cut into instructional programs by dismissing teachers and increasing class size.

4) Proposition 13 may have had non-financial impacts that are difficult to measure but could still have a profound effect on public education. Every superintendent interviewed, for example, indicated that he/she believed that employee morale and community support for education were very low this year. If this is indeed the case, continued declining financial support for public education could drive school employees into other professions and students into alternatives to public education.

These conclusions all point in the same direction. The impact of Proposition 13-SB154 on California public schools has been significant, but it has not been felt uniformly by the State's school districts. At present levels of funding most districts are continuing to provide a level of educational programs only marginally different from that provided in previous years. If additional cut-backs are imposed in the future, however, the impact on the level of educational programs could be quite severe.